

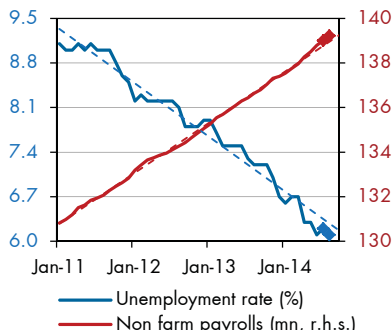
Market Outlook Bond markets

weekly

29 August 2014

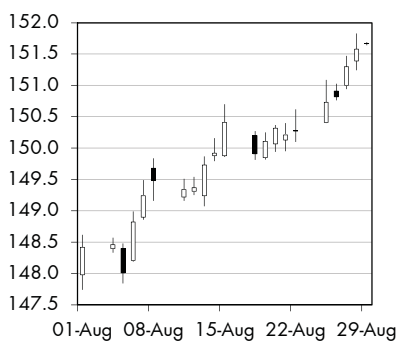


USA: Stable labour market trends

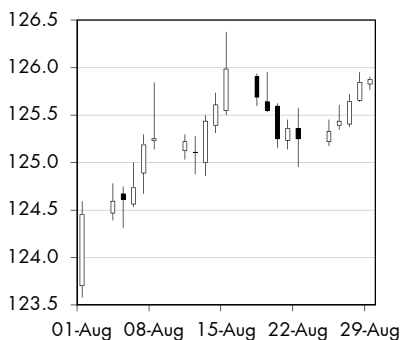


Source: Thomson Reuters, Raiffeisen RESEARCH

Bund Future



5y high: 151.67; 5y low: 119.90
Source: Bloomberg



5y high: 135.66; 5y low: 115.00
Source: Bloomberg

Forecasts

USA	curr. ¹	Dec-14	Jun-15	Rec.*
Key rate	0.25	0.25	1.00	n.a.
Libor 3M	0.23	0.45	1.20	n.a.
Yield 2Y	0.51	0.80	1.60	Sell
Yield 10Y	2.35	3.30	3.70	Sell
Eurozone				
Key rate	0.15	0.15	0.15	n.a.
Euribor 3M	0.16	0.20	0.30	n.a.
Yield 2Y ²	-0.01	0.10	0.40	Hold
Yield 10Y ²	0.91	1.80	2.20	Sell
Swaprate 5Y ²	0.50	1.05	1.60	n.a.

¹ as of 29 August 2014, 11:44 p.m. CET; ² under revision;
*Recommendation for an investment horizon of 1 to 4 months
Source: Thomson Reuters, Raiffeisen RESEARCH

USA

Given the escalating **conflict between Ukraine and Russia** and the increasing likelihood of a **sanction war**, which would hurt an already meager European economy even further, the geopolitical risk is currently also on US bond markets dominating any positive economic data. In contrast to the euro area, though, there are at least **positive economic surprises** coming out of the USA: Durable goods orders for July rose by +22.6% mom (!), thereby beating consensus targets as forecasted by a wide margin. GDP for Q2 was also revised slightly upwards (to an annualized 4.2%). This is likely the reason why 10y US yields "only" slid by around 7bp to 2.33% in the past week and showed less reaction to geopolitics than their German counterparts. How will things continue? There is unlikely to be a lack of positive US economic data as the US economy is currently kicking things up a notch and the upswing is largely self-sustaining (not due to exports). A sanction war with Russia would change very little (apart from a temporary dip in market sentiment) for the USA (the opposite holds true for Europe) as there are simply too few economic ties with Russia.

The **coming week** will bring the monthly heavyweights and is therefore well equipped to remind markets of the US economy's current strengths. On Tuesday the **ISM Manufacturing Index** will be published; already published regional surveys from New York (sharp drop, although from a high level), Philadelphia (further rise to the highest since March 2011) and Richmond (also rose to the highest level since March 2011) indicate a largely unchanged value from July, leaving it at a very high level above 55 points (another preliminary indicator will be provided by the **Markit PMI**, also on Tuesday).

Key figures

USA				RBI	Kons.	zuletzt
Tue, 2.	15:45	Markit PMI Manufacturing	Aug.	n.a.	n.a.	58.0
Tue, 2.	16:00	ISM Manufacturing Index	Aug.	57.2	56.8	57.1
Wed, 3.	16:00	Factory orders (% mom)	Jul.	n.a.	10.8	1.1
Thu, 4.	14:15	ADP Employment (thsd, mom)	Aug.	210	215	218
Thu, 4.	16:00	ISM Non-Manufacturing Index	Aug.	58.0	57.4	58.7
Fri, 5.	14:30	Nonfarm payrolls (thsd, mom)	Aug.	205	220	209
Fri, 5.	14:30	Unemployment rate (%)	Aug.	6.1	6.1	6.2
Europe						
Mon, 1.	08:00	DE: GDP (% qoq), details	Q2	-0.2	-0.2	-0.2
Mon, 1.	09:15	ES: PMI Manufacturing	Aug.	52.9	53.2	53.9
Mon, 1.	09:45	IT: PMI Manufacturing	Aug.	50.6	51.0	51.9
Wed, 3.	09:15	ES: PMI Services	Aug.	55.1	55.9	56.2
Wed, 3.	09:45	IT: PMI Services	Aug.	52.0	52.3	52.8
Wed, 3.	11:00	EA: GDP (% qoq), details	Q2	0.0	0.0	0.0
Thu, 4.	08:00	DE: Factory orders (% mom)	Jul.	n.a.	1.5	-3.2
Fri, 5.	08:00	DE: Industrial production (% mom)	Jul.	n.a.	0.5	0.3
Fri, 5.	08:45	FR: Consumer confidence	Aug.	85.0	85.0	86.0
Events						
Wed, 3.	20:00	Fed releases Beige Book	Jul./Aug.	-	-	-
Thu, 4.	13:45	ECB Main Refinancing Rate (%)	Sep.	0.15	0.15	0.15
Thu, 4.	13:45	ECB Deposit facility rate (%)	Sep.	-0.1	-0.1	-0.1

Source: Bloomberg, Raiffeisen RESEARCH

GDP (real %yoy)*

	2013	2014e	2015f
Austria	0.3	0.9	1.5
Germany	0.5	1.8	2.5
France	0.4	0.7	1.8
Belgium	0.2	1.5	2.3
Netherlands	-0.7	0.7	2.1
Finland	-1.2	0.1	1.5
Ireland	0.2	3.0	3.5
Italy	-1.8	0.5	1.5
Spain	-1.2	1.5	2.0
Portugal	-1.4	0.9	2.0
Greece	-3.9	0.0	2.0
Euro area	-0.4	0.8	1.6
United Kingdom	1.8	3.1	2.6
Switzerland	2.0	2.0	2.0
USA	2.2	2.2	3.2
Japan	1.5	1.4	1.1

* under revision

Source: Thomson Reuters, Raiffeisen RESEARCH

Consumer price index (% yoy)

	2013	2014e	2015f
Austria	2.1	1.5	1.8
Germany	1.6	1.0	2.0
France	1.0	1.0	1.3
Belgium	1.2	0.9	1.5
Netherlands	2.6	0.5	1.2
Finland	2.2	1.0	0.7
Ireland	0.5	0.6	1.3
Italy	1.3	0.5	1.0
Spain	1.5	0.3	0.9
Portugal	0.4	-0.1	0.8
Greece	-0.9	-1.5	-0.5
Euro area	1.4	0.7	1.3
United Kingdom	2.6	2.1	2.8
Switzerland	-0.2	0.4	1.1
USA	1.5	1.9	2.2
Japan	0.4	2.6	1.2

Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current ¹	Dec-14	Mar-15	Jun-15
CHF				
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	0.44	0.9	1.1	1.2
YEN				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.13	0.1	0.2	0.2
Yield 10Y	0.50	0.7	0.8	0.8
FX				
EUR/USD	1.32	1.30	1.30	1.27
EUR/JPY	137.0	134	138	137
USD/JPY	103.9	103	106	108
EUR/CHF	1.21	1.22	1.23	1.25
Crude				
Brent (USD)	101.1	114	117	117

¹ as of 29 August 2014, 11:44 p.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

Also Friday's monthly **employment report** promises to again show a strong increase in payrolls around 200 thsd. (another indication for this will be given by the ADP report released Thursday). Even the **ISM non-manufacturing** survey should fit into this picture, remaining in "strong-growth" territory despite a slight monthly decline.

Despite all this we expect that also in the coming week geopolitical risk will continue to dominate on the **US bond market** over economic data. Without a last-minute U-turn from Russia in the conflict it will be difficult to avoid an escalating spiral of sanctions and counter-sanctions. In this case the prospect of economic damage caused by this (although mostly concentrated on Russia and the EU, much less so on the US) and the at least temporary hit to investor sentiment would keep US bond yields low and probably even lead to further temporary yield declines. This would increase the divergence between current low yield levels on the one side and the improving US economy and approaching rate hike cycle on the other side even more, leaving a lot of scope for yield increases by year-end. Because in contrast to the Euro area, even escalating sanctions against Russia would not lead to additional monetary easing. A first Fed rate hike would be slightly delayed at best, but not canceled.

Financial analyst: Valentin Hofstätter, CFA

Euro area

In the coming days only a limited number of economic data is on the agenda. The **details regarding GDP development in Q2** will be published for the euro area and Germany. Stagnation in the euro area, a drop in Germany (-0.2% qoq) as well as the marked restraint in corporate investments are expected to be confirmed. As indicated by the flash estimates for the euro area, Germany and France a noticeable decline is anticipated in the August **purchasing managers' indices (PMI)** for the manufacturing and services sectors in Italy and Spain. Furthermore, incoming orders and production in the German industrial sector will provide the first "hard" data indicating dynamics in the third quarter.

However, since the conflict between Ukraine and Russia has escalated sharply lately, economic data are likely to take a backseat. The decisive and open support of the Russian military for the rebels within Ukraine is becoming more and more obvious. Reports of Russian troop movements in the (South) Eastern Ukraine immediately triggered **new threats of sanctions** from the US as well as the EU. Moreover, the next round of sanctions is already to be discussed at the EU summit this weekend. A renewed tightening of economic and financial sanctions against Russia may involve aspects like targeting current holdings of Russian financial assets abroad as well as short-term corporate financing. It goes without saying that such initiatives would call for Russian retaliation – with threats of cutting gas supplies already hanging in the air. The **risks for an already fragile euro area recovery** have thus **risen sharply yet again**, as have the increasingly tangible negative effects for the economy. As the hopes for a de-escalation of the conflict vanished, the already high uncertainty among companies and consumers is starting to gain the upper hand. The upswing that the euro area has been hoping for is thus very much in danger. Additionally, the increasingly gloomy economic outlook is likely to also have some effect on inflation expectations.

In this tense environment the **European Central Bank's Governing Council meeting** will be of particular interest. ECB President Draghi made it very clear in his speech in Amsterdam at the end of April that should the economy slow again si-

multaneously with a drop in inflation expectations then quantitative easing would be the measure used to steer against it. Mario Draghi has recently underscored the ECB's **readiness to act** at the traditional central banker meeting in Jackson Hole. He will most certainly do this again during the press conference following the interest rate decision this coming Thursday. Although the chances for a broad government bond purchase program from the ECB has certainly increased, such a measure is unlikely to be decided upon at the upcoming meeting. First, utilisation of the first tranche of targeted long-term refinancing operations (TLTRO) in mid-September has to be assessed. We do, however, expect to hear a progress report on the announced ABS purchase program.

Not least because of increased expectations towards the ECB the rally in government bonds has reached another all-time high in the past week. The **yield on 10y German benchmark bonds** reached **0.868** and thus a level more than one percentage point below that at start of the year. In the near future, a sustainable **turnaround** now seems to be **increasingly unlikely**. Yet, we continue to see potential for tighter risk premiums in Italian, Spanish, Portuguese and Irish government bonds, which have so far weathered geopolitical uncertainties well.

On the **primary market** Germany, Spain, France and Belgium have scheduled bond issuances in the coming days. The Netherlands, France, Belgium and the ESM are all issuing money market paper. The coming Friday's **rating calendar** features Portugal and Malta (Moody's) as well as the ESM (Fitch).

Financial analyst: Eva Bauer, CIIA

Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol*
Bonds				
DE	Wed,	3. 2019	n.a.	5
ES	Thu,	4. n.a.	n.a.	n.a.
FR	Thu,	4. 2024	1.75	8 - 9
	Thu,	4. 2029	2.5	
	Thu,	4. 2044	3.25	
BE	Thu,	4. n.v.	n.a.	n.a.
Bills				
NL	Mon,	1. 3M, 7M	-	2
FR	Mon,	1. 3M, 5M, 12M	-	n.a.
BE	Tue,	2. 3M, 12M	-	n.a.
ESM	Tue,	2. 3M	-	n.a.
MT	Wed,	3. n.a.	-	n.a.
LV	Wed,	3. 12M	-	n.a.

* EUR bn
Source: Bloomberg

Overview government bonds

Yields 10Y					
	curr. ¹ (%)	1W Δ (BP)	5Y H (%)	5Y L (%)	Ytd Δ (BP)
AT	1.11	-13.1	3.88	1.11	-116.1
DE	0.88	-10.7	3.49	0.88	-105.4
FR	1.24	-13.4	3.78	1.24	-132.3
BE	1.20	-14.3	5.86	1.20	-135.6
NL	1.03	-13.2	3.75	1.03	-120.1
FI	1.02	-13.2	3.71	1.02	-110.6
IE	1.78	-11.5	14.08	1.77	-173.4
IT	2.43	-14.8	7.26	2.39	-169.7
ES	2.22	-16.6	7.62	2.15	-193.5
PT	3.16	-7.8	17.39	3.02	-297.1
GR	5.76	-8.8	37.10	4.42	-265.5
GB	2.37	-2.5	4.23	1.44	-65.1
CH	0.43	-7.2	2.16	0.39	-63.9
US	2.33	-7.3	3.99	1.39	-69.8
JP	0.50	-1.4	1.48	0.45	-24.5

¹ as of 29 August 2014, 08:48 a.m. CET
Source: Bloomberg

Forecast spreads¹ government bonds

	curr. ²	Sep-14	Jun-15	Rec. ³
FR10y/DE10y	36	30	20	Hold
AT10y/DE10y	24	25	15	Hold
IE10y/DE10y	91	80	50	Buy
IT10y/DE10y	155	110	80	Buy
ES10y/DE10y	134	100	60	Buy
PT10y/DE10y	229	170	140	Buy
GR10y/DE10y	488	n.v.	n.v.	n.v.
DE10y/DE2y ⁵	89	140	180	Sell

¹ Spread first bond segment versus second, in bp
² As of 29 August 2014, 09:04 p.m. CET
³ Recommendation for an investment horizon of 1 to 4 months
⁵ under revision
Source: Thomson Reuters, Raiffeisen RESEARCH

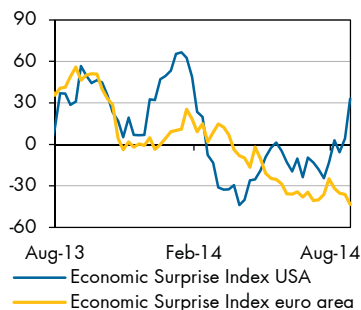
Ratings

	Moody's	S&P	Fitch
Austria	Aaa (s)	AA+ (s)	AAA (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa1 (n)	AA (s)	AA+ (s)
Belgium	Aa3 (s)	AA (s)	AA (s)
Netherlands	Aaa (s)	AA+ (s)	AAA (s)
Finland	Aaa (s)	AAA (n)	AAA (s)
Ireland	Baa1 (s)	A- (p)	A- (s)
Italy	Baa2 (s)	BBB (n)	BBB+ (s)
Spain	Baa2 (p)	BBB (s)	BBB+ (s)
Portugal	Ba1 (s)	BB (s)	BB+ (p)
Greece	Caa1 (s)	B- (s)	B (s)
UK	Aa1 (s)	AAA (s)	AA+ (s)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA (s)
Japan	Aa3 (s)	AA- (n)	A+ (n)

Outlook: p = positive, n = negative, s = stable
Source: Bloomberg

Market Outlook Equity Markets

Positive and negative surprises



Source: Citigroup, Bloomberg, Raiffeisen RESEARCH

Performance

	-5D*	-5Y in %**
Euro STOXX 50	2.2	2.5
DJIA	1.9	12.3
DAX	1.9	11.4
S&P 500	1.9	14.2
STOXX Europe 50	1.8	4.7
MSCI World	1.8	9.8
Nasdaq Comp.	1.8	17.6
Nikkei	1.8	8.0
SMI	1.7	6.8
CECE Comp. (CE)	1.4	-0.9
ATX	1.4	-2.2
FTSE	1.4	6.8
Hang Seng CE	-1.2	-0.9

** performance from 21 August 2014 - 28 August 2014 (closing prices in each case), ** per year; Source: Thomson Reuters, Raiffeisen RESEARCH

Performance

	-5D*	-5Y in %**
IT	2.3	13.3
Industrials	2.2	11.8
Health Care	2.1	15.2
Energy	2.0	8.1
Utilities	1.9	1.9
Financials	1.9	5.1
MSCI World	1.8	9.8
Cons. Discretionary	1.7	16.1
Cons. Staples	1.2	11.7
Telecoms	1.1	7.0
Materials	0.8	4.2

* weekly performance of global MSCI sector indices from 21 August 2014 - 28 August 2014 (closing prices in each case), ** per year, Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current ¹	Dec-14	Mar-15
DJ ES50	3,166	3,250	3,450
DAX	9,469	9,800	10,400
ATX	2,286	2,450	2,660
SMI	8,638	8,900	9,300
FTSE	6,814	7,000	7,300
DJIA	17,080	17,300	17,200
S&P 500	1,997	2,030	2,030
Nasdaq Comp.	4,558	4,650	4,630
Nikkei	15,425	16,500	16,700
Hang Seng CE	10,964	11,200	11,200

¹ as of 29 August 2014, 12:00 noon CET
Source: Bloomberg, Raiffeisen RESEARCH

Recommendations (horizon: end of September)

Stock markets: Buy: ATX, DAX, Euro STOXX 50, NIKKEI 225
Hold: FTSE, SMI, US equity indices

Established equity markets

The conflict between Ukraine and Russia has intensified due to the latest incursions of Russian soldiers into Ukraine. We can therefore assume that the spiral of sanctions will continue. The latest escalation proved to be a clear stress factor for international stock markets and interrupted the recovery's momentum that even pushed the S&P 500 above the 2,000 point mark for the first time.

In terms of the economy, we have been receiving mixed signals. While many indicators are pointing to an economic mini boom in the USA, the euro area has become disillusioned with any recovery in the economy. These opposite trends can also be seen in economic surprise indices, which compare the actual economic data with the consensus estimates of various economists. The index for the USA has not been this high since January, while the one for the euro area has been in a decline since a year. Next week the purchasing managers' indices (ISM manufacturing and others) and the labor market report will take center stage among other releases. The disparate trends in the two economies are demanding different reactions from the respective central banks. The Federal Reserve is losing the argument as to why it is maintaining such an ultra-expansive monetary policy stance and the ECB is coming under increasing pressure to fulfill the hopes for quantitative easing that it inspired all on its own. This divergence does have positives for European companies, though, namely a devaluation in the euro. This should be positive for the profits of local companies, which recently rose sharper than in the USA. Over the medium-term we also see higher growth potential for European companies since margins have greater room for improvement in contrast to their American counterparts.

As we head towards the end of the year we are maintaining our cautiously optimistic view on the stock market. In general solid fundamental data (profit, economy) should keep the upper hand over the various crises around the planet and fears over US interest rate hikes. This view is backed by attractive valuations (especially in Europe and Japan) and high cash levels amongst institutional investors, which often indicate rising stock prices.

Financial analyst: Christian Hinterwallner, CEFA

Expected corporate releases

USA

Wed, 3 H&R Block

Europe

Mon, 1 Helvetia Holding, Iliad

Tue, 2 Zumtobel

Source: Bloomberg, Raiffeisen RESEARCH

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analysis) can be found at: www.raiffeisenresearch.at/sensitivityanalysis

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Government bonds

Outright: Recommendation history (1-4 months horizon)

Issuer	DE		US	
	2y	10y	2y	10y
Maturity segment				
18/07/2014	Hold	Sell	Hold	Sell
23/07/2014				
25/07/2014				
01/08/2014				
04/08/2014				
06/08/2014				
08/08/2014				
14/08/2014			Sell	
22/08/2014				
29/08/2014				

Spread: Recommendation history (1-4 months horizon)

Issuer	AT-DE	FR-DE	IT-DE	ES-DE	IE-DE	PT-DE	DE-DE
	10y-10y	10y-10y	10y-10y	10y-10y	10y-10y	10y-10y	10-2y
Maturity segment							
18/07/2014	Hold	Hold	Buy	Buy	Buy	Buy	Sell
23/07/2014							
25/07/2014							
01/08/2014							
04/08/2014							
06/08/2014							
08/08/2014							
14/08/2014							
22/08/2014							
29/08/2014							

Equity market indices

Financial instruments	Date of the first publication
Euro STOXX 50	26/02/1998
DAX 30	01/04/1993
FTSE 100	01/04/1993
SMI	01/04/1993
S&P 500	01/04/1993
Nasdaq Comp.	01/07/1998
DJIA	01/04/1993
Nikkei 225	01/04/1993
HSCEI	01/01/2007

Recommendation history (1-4 months horizon)

Date	ATX	Euro STOXX 50	DAX 30	FTSE 100	SMI	S&P 500	Nasdaq Comp.	DJIA	Nikkei 225	HSCEI
22/03/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Sell	Buy
10/05/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	I
07/06/2013	I	I	I	I	I	I	I	I	Buy	I
20/06/2013	I	I	I	I	I	I	I	I	Buy	I
08/08/2013	I	I	I	I	I	I	I	I	I	I
13/08/2013	Sell	I	I	I	I	I	I	I	I	I
13/09/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I	I
07/11/2013	I	I	I	I	I	I	I	I	I	I
08/11/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	I	I
15/11/2013	I	I	I	I	I	I	I	I	Hold	I
13/12/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I
20/12/2013	I	I	I	I	Hold	I	I	Hold	Hold	I
17/01/2014	Hold	Hold	Hold	Hold	I	Hold	Hold	I	I	I
14/02/2014	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I
19/03/2014	I	I	I	Hold	I	Hold	I	Hold	I	I
18/04/2014	I	I	I	I	I	Buy	I	I	I	I
02/05/2014	Hold	Hold	Hold	I	Hold	Hold	I	I	I	I
16/05/2014	Buy	I	I	I	I	I	I	I	I	I
20/06/2014	I	Buy	Buy	I	I	I	Hold	I	I	I

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